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Hamilton Convention Centre
Management Report

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HAMILTON CONVENTION CENTRE

MANAGEMENT REPORT

FEBRUARY 21, 1982

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HAMILTON CONVENTION CENTRE
MANAGEMENT REPORT
FEBRUARY 21, 1982

ENTERTAINMENT AND
TRAVEL EXPENSES

Account No. 3321-0161

Account No. 3321-0161 is for the entertainment expenses of the General Manager and Board of Directors. The total payments to this account amounted to \$ 12,924 compared to a budget of \$ 11,000.

An analysis of this account disclosed that the following amounts were spent relative to specific meetings and events:

\$ 749	for twelve meetings of the Board of Directors,
213	for two meetings of the Opening Committee,
484	for various Press conferences and meetings to introduce the Convention Centre,
453	for a staff Christmas party which was apparently held at the home of the General Manager, Mr. John Pilato,
688	for a Christmas party for the Board of Directors which was held at the home of the Chairman of the Board, Mr. Robert Darling. The invitation to the party did not disclose that it was a Board of Directors' party and various directors stated they had no knowledge of the party as being under the auspices and expense of the Board of Directors of the Hamilton Convention Centre.

The balance of approximately \$ 10,300 was represented by numerous entertainment charges which were either authorized substantially by the General Manager, Mr. John Pilato, or contained on Mr. Pilato's expense reports which in turn were authorized by the Chairman of the Board. Very few of these expenditures contained any indication of the person being entertained or the purpose of that expenditure. We are, therefore, unable to determine the validity of those charges.

We comment as follows on specific items contained within this account:

1. Accounts were maintained with Tiffany's and LoPresti's restaurants and the Chamber of Commerce. After deducting items specific to the Board of Directors, charges of \$ 3,327 were incurred of which \$ 137 pertained to the Chamber of Commerce. The payments made to these suppliers were supported by only monthly statements and thus were inadequately documented.

1. (continued)

No invoices were attached to the statements and, of course, as mentioned before, there was no indication of the persons entertained or the purpose of the expenditure. The largest single bill was from LoPresti's in the amount of \$ 499. We were told that this pertained to a dinner for the Convention Centre department heads and their wives. Payments to these suppliers were generally approved by John Pilato.

2. Mr. Pilato submitted periodic expense reports which totalled approximately \$ 2,800 for the year. The accounting system requires that these expense reports be approved by the Board Chairman. Other than some \$ 324 concerning long-term disability premium payments, the expense reports substantially covered entertainment items. The documentation supporting the expense report would typically be VISA slips or stubs from restaurant bills. Again, these items contained no mention of the persons being entertained nor the specific details of the expenditure. The expense reports contained some baby-sitting charges in instances where Mr. Pilato and his wife were presumably required to attend functions on behalf of the Convention Centre. We also noticed that the expense reports contained mileage charges for trips to Toronto. Since Mr. Pilato was in receipt of a monthly car allowance of \$ 325, we would question whether or not he should have received mileage for what would essentially be a short trip.

3. A van was rented for the periods, December 12th to the 15th and December 19th to the 21st for the total amount of \$ 278. We were informed that the purpose of the van was to deliver food and beverages totalling \$ 608 to the home of John Pilato for a client reception held on December 13th and a staff Christmas party held on December 20th. The van was also used for a similar purpose to deliver food and beverages to Mr. Robert Darling's house for a Board of Directors' Christmas party. We were not able to determine the persons entertained in the client reception of December 13th. It is the custom of the Convention Centre to charge functions such as these with the cost of the full bottles of beverages supplied to the function and to credit that function with the

3. (continued)

beverages returned to the Convention Centre. The net result of these entries is to record as a cost, the actual useage at each function. The client reception on December 13th showed no such returns and we were informed that the beverages remained at Mr. Pilato's house to be used in the subsequent staff Christmas party. However, there was an additional shipment of beverages for the staff Christmas party and there were no returns applied against this event. Similarly, there were no beverages shown as returned from the Board of Directors' Christmas party. We should mention, however, that it is possible that items were returned to the Convention Centre but the proper procedures for the return were not followed.

4. A perusal of petty cash vouchers disclosed a few payments for round amounts such as \$ 50 to the General Manager and the Assistant General Manager. Although these items were properly signed for, no purpose was given for the expenditure.

Account No. 3321-0191

The travelling account for the General Manager, Account No. 3321-0191, shows a year-end balance of \$ 17,598 as compared to an original budget of \$ 5,000. We should like to mention the following item passed by the Board of Directors at their September 16th, 1980 meeting:

"The General Manager shall have the authority to attend Seminars and Conventions which, in his discretion are beneficial and informative, without first obtaining the consent of the Board of Directors, and may so authorize the staff to attend such Seminars and Conventions, keeping within the budget approved by the Board of Directors of the Hamilton Place Convention Centre".

As was mentioned previously in our commentary on expense vouchers, many of the payments in this account are also inadequately supported. VISA slips

are often used as documentation of an expenditure without any indication of the purpose of the expenditure or persons entertained.

We comment below on specific items found in our analysis of the travelling account:

1. The American Society of Association Executives held their annual conference in Acapulco from October 10th to 14th, 1981. Mr. and Mr. John Pilato attended that conference. Their air fare routed them via San Francisco and Los Angeles and there was a note on the cheque requisition signed by John Pilato that he was to reimburse the Convention Centre for the San Francisco portion of the trip. We also noted that although the Conference was from October 10th to the 14th, in fact, the hotel bill indicated that the Convention Centre paid for accommodation and expenses in Acapulco for the period October 6th to the 15th. We are unable to determine the reason for this longer stay. The total cost of the Conference to the Convention Centre was approximately \$ 4,300, of which approximately \$ 1,700 represented meals, entertainment, tips, etc. Some \$ 1,064 of this was to the hotel and was supported only by a VISA slip with no attached hotel bill to support these charges. The expense report containing the hotel charges was approved by the Board Chairman. During the course of our audit we were unable to find any record of repayment of air fares or repayment of any personal portion of the Acapulco expenses.
2. Messrs. John Pilato, Robert Gregson and Joseph Urban attended the Institute of Association Executives Conference in Vancouver for five days from August 8th to the 13th, 1981. The total cost of the trip, excluding a promotional breakfast given to all the Conference attendees, amounted to \$ 5,397. Both Mr. Gregson and Mr. Urban went to San Francisco on a personal trip prior to this Conference and they reimbursed the Convention Centre for the personal portion of their air fares. Messrs. Gregson and Pilato shared a suite at \$ 300 a night. The suite was used for storage of handouts of promotional material and for entertainment purposes. Again, there is no documentation as to the nature of any of the entertainment expenses.

3. John Pilato visited London, England on a "Canada Calling" promotion on March 9th and 10th, 1981. His hotel bill indicated that he was in London from March 7th to the 13th and there is no indication as to the reason for the length of stay. The hotel bill indicated "No. of guests, 2". We are unable to determine whether in fact, two persons were present or the designation on the hotel bill was in fact, in error, and merely meant to represent, for example, a twin-bedded room. There was a charge for rail transportation paid by a VISA slip to British Rail on the 13th of March for approximately £45. There is no explanation as to the purpose of this rail charge. The total cost of this trip, exclusive of the Convention Centre share of the Canada Calling promotion amounted to \$ 3,813. The expense report for the hotel, etc. was approved by the Board Chairman.

RECOMMENDATIONS:

1. All entertainment vouchers should indicate the person entertained and the purpose of that entertainment. It is our understanding that this policy has recently been put into force by the Convention Centre.
2. All payments should be supported by proper invoices. Statements should not be used as a means of requesting payment.
3. The whole question of car allowances should be re-examined. Where car allowances are given, then the employees should clearly understand the circumstances (if any) where they will be allowed to charge for additional costs. We should also like to indicate that in all probability the employees are taxable on their car allowances.
4. Payments through petty cash should in all instances indicate the nature and purpose of the expenditure.
5. The Board should consider the setting of standards relative to entertainment and travelling expenses. Some of the items to consider in this area are:

5.(continued)

- (a) Whether or not the Centre should pay for lunch or dinner meetings which exclusively involve the Centre employees and/or its suppliers.
- (b) The class of air fares that will be reimbursed without specific approval.
- (c) Whether or not a per diem rate should be set to cover meal and incidental expenses while on Conventions or meetings.
- (d) The approval process required for the General Manager's Entertainment and promotion expenses. These would include both his expense reports which are presently approved by the Board Chairman and all other direct expense and travel payments.
- (e) The type of staff events and expenditures relating thereto which would be paid by the Centre.

STAFF GRATUITIES

The present gratuities system is as follows:

1. Gratuities charged to clients, including internal events, are credited to Revenue Account 3301-3098.
2. The Director of Catering maintains an independent record of gratuity credits and periodically calculates gratuity payments based upon the agreed-upon formula. Some employees have guaranteed gratuity amounts under their employment contracts and this guaranteed amount was calculated for a December payout.
3. All gratuity payments are charged to specific departmental gratuity expense accounts.

As part of our audit, we attempted to reconcile the gratuity revenue account with the total of the expense accounts for gratuities. The results of this reconciliation showed that the gratuities paid exceeded gratuity recoveries by approximately \$ 1,400. It is possible that this excess could represent some internal billings which have not been reflected in the accounts.

RECOMMENDATIONS

1. Gratuity payouts should be calculated on the basis of accounting records and not on the basis of information maintained by the Director of Catering.
2. Excess payments arising from employment guarantees should be charged to specific expense accounts and thus isolated from the gratuities system.
3. True gratuity receipts and payments should be credited and charged to a Gratuities Clearing Account. This account should clear to zero after gratuity payments are made.

4. Gratuities are often charged for internal events (i.e. food and beverages to an internal promotion meeting). This policy should be re-examined.
5. It would be worthwhile in the light of present experience, to re-examine the gratuity policies, especially those relating to guaranteed amounts.

RENTAL OF AUDIO VISUAL EQUIPMENT

If a client of the Convention Centre requires audio and visual equipment, then the Convention Centre rents that equipment from Hamilton Convention and Show Services Limited and passes the charge to its client. Under the present system the recoveries are credited to Revenue Account 3301-3050, Audio Visual Recoveries, where the expense is charged to Account 3321-2088, Rental of Audio Visual Equipment. Since the expense account also contains rental expenses incurred by the Convention Centre itself, the two accounts do not balance. As part of our audit, we checked 100% of all rental payments to Hamilton Convention and Show Services Limited to the client billing to ensure that any recoverable items were, in fact, billed. We can state that all recoverable items were correctly billed to the Convention Centre clients.

RECOMMENDATIONS

1. Audio Visual expenses which are recoverable from clients should be charged to a clearing account. Equipment billed to clients should be credited to the same account and any balance in the account analyzed to determine why it has not been recovered. The balance of any rental payments which are the responsibility of the Convention Centre should be charged directly to an expense account.
2. Hamilton Convention and Show Services Limited charges retail sales tax to the Convention Centre on its rentals. The Convention Centre has charged retail sales tax on the same equipment to its clients and then remitted the sales tax to the Retail Sales Tax authorities. The result of the aforementioned is that the sales tax has been paid twice, with the Convention Centre being out the amount of the sales tax. It is our understanding that the sales tax should be paid by the Hamilton Convention and Show Services Limited, with the Convention Centre merely recovering the entire rental plus sales tax from its client. Our calculations show that the excess sales tax paid for the 1981 year amounted to \$ 469.95. This should be recovered as part of the next retail sales tax payment.

AGREEMENT WITH HAMILTON
CONVENTION & SHOW SERVICES LIMITED

The following revenue arrangements are contained in the agreement dated the 26th day of February, 1981:

1. Hamilton Convention & Show Services Limited shall pay to the Convention Centre a commission of 15% of its gross revenue (excluding warehouse services) and 10% of the net profit of its warehousing services.
2. Fees are payable monthly on or before the 60th day following the close of the latest Trade Show held in each month.
3. The first agreement year ends February 28, 1982. No later than 90 days after the end of each agreement year, the final adjustment shall occur.
4. Hamilton Convention & Show Services Limited agrees that no later than 30 days after the close of each calendar month it will deliver to the Convention Centre a written statement showing:
 - (a) Gross revenue made in the preceding calendar month, and
 - (b) The net revenue earned in the preceding calendar month.
5. No later than ninety days after the close of the agreement year, it will deliver a statement of gross revenue and a statement of net revenue, certified by an independent Chartered Accountant.
6. The Convention Centre and/or its auditor has right of access to Show Services records.
7. Interest at 15% shall be charged on all overdue accounts.

We wish to advise you that the first payment received from Hamilton Convention & Show Services Limited under this contract was received on or about January 18th, 1982 in the amount of \$ 4,890.46. This payment is in respect to the 15%

commission on all gross revenue billed to October 30, 1981. No payments or revenue reports have been received for November and December, 1981 nor has any interest on late payment been calculated. Section 17 to the agreement states that if Hamilton Convention & Show Services Limited fails to comply with any of the terms and conditions of the agreement and this failure continued for fifteen days after receipt of notice in writing from the General Manager setting out the particulars of such failure, the Convention Centre may, at its option, terminate the agreement forthwith. It is our understanding that Mr. Scott Walker, the Assistant General Manager, forwarded a letter to Hamilton Convention & Show Services Limited outlining certain deficiencies in its service and specifically requesting the monthly reports.

In addition to the above agreement, Hamilton Convention & Show Services Limited..... has rented space in the Convention Centre from October 1, 1981 for a monthly rent of \$ 100 plus \$ 120 for photostating services. No payments have been received under the rental agreement.

RECOMMENDATION

1. That the Solicitor for the Convention Centre should examine this letter and the agreement to determine in fact, if proper notice has been given.

SPECIAL BANK ACCOUNT

In their June 15th, 1981 meeting, the Board of Directors approved establishing a special bank account on which cheques may be written for liquor, beer, and emergency purchases. The cheques should not exceed \$15,000 in each instance with a limit of \$30,000 in any one week's time. The signing authorities on the account were any two of:

- (a) The General Manager and/or Assistant General Manager, or
- (b) One of the above, together with the Chairman, or First Vice Chairman, or Second Vice Chairman.

As part of our year-end audit, we examined every cheque issued through this account and the back-up documentation pertinent to that cheque. Our findings were as follows:

1. Some 74 cheques were issued from this account during the year. Of this number, 36 did not pertain to purchases of liquor, beer or wine. Although it is difficult to determine, in hindsight, the emergency nature of the expenditure, it would seem to us that many of these other payments could have been made through the normal payment system. Examples of some of these items are:
 - (a) A cheque in the amount of \$400 to the Variety Club for two tickets to their subscription dinner;
 - (b) A \$2,000 cheque for a band for Oktoberfest.
 - (c) A cheque for \$9,000 to Danick Enterprises as settlement for damages caused to that client with respect to an error in licencing a function that was booked into the Centre.
 - (d) A rental of a tuxedo for John Pilato in the amount of \$104.
 - (e) A cheque for \$496 for Christmas decorations for the Convention Centre.

2. Although documentation was present to support the purchases of liquor, beer and wine, there was no signature on this documentation to ensure that these goods were received. In discussion with the shipper, it was determined that she would place a check mark against each item on the purchase order slip but did not sign that slip prior to forwarding it to the accounting office.

RECOMMENDATIONS

1. That the special bank account be used in accordance with the procedures and terms as set out at the time the bank account was opened.
2. That the person responsible for receiving of liquor, beer and wine clearly sign the receiving slip to indicate to the accounting office that all items have been received.
3. That cheques paying for liquor, beer and wine purchases be prepared after the proper receiving documents are completed and supported by those receiving documents at the time the cheque is signed.

As mentioned in our previous report, it was the custom to presign cheques in advance in order that a cheque would be available when these purchases came in to the Centre. The effect of this was that the signing authorities could not ensure themselves that the cheque was for a valid purchase.

4. That the question of signing authorities for this account be reviewed. It is often very difficult to obtain two signatures for an emergency purchase since there are only two employees of the Convention Centre who have authority to sign. To compensate for this, cheques would often be signed in advance by one of the signing authorities. We would suggest that either the number of signing authorities be expanded or that the required authority be reduced to one signature. Our preference would be any two of the General Manager, Assistant General Manager and Controller or one of those three plus either the Chairman of the Board or the First Vice Chairman.

CONTROL OVER LIQUOR, BEER AND WINE TICKETS

We attempted to establish an element of control over liquor, beer and wine revenues by checking the numerical sequence of tickets issued for the entire year. All available cash reports were obtained and used in this numerical sequence check. The results of our audit are as follows:

1. We were unable to account for approximately 11,000 tickets with a total dollar value of \$ 16,000.
2. Some ticket groups appear to have a similar number series as other groups. This could be due to mixing types of tickets or inaccurate recording of tickets used on the cash sheets. Some of the wine and draught beer tickets have the same numerical sequence on the cash reports. We suspect that the tickets were interchanged between categories of sales and if this is so, then the number of missing tickets could be reduced by approximately 2,400 and the revenue by approximately \$ 3,000.
3. Tickets do not run in sequence from day to day. In fact, there are often month-long gaps between parts of the same roll being used. This makes control over numerical sequence very difficult.
4. Many missing tickets are single tickets that ended a sequence on the cash sheet. This error could be due to the fact that the cashiers do not know how to record their ending number, i.e. whether it should be the last one sold or the next unused ticket on the roll.
5. Where rolls were substantially used, the tickets remaining were not sold but placed in a large bag in the vault. Since these were not listed or controlled, it is possible that many of these ends of rolls have been lost or destroyed.

Our conclusion is that there is no control over tickets for alcoholic beverages. There is no perpetual record maintained of the ticket rolls nor is numerical

sequence checked by the Convention Centre. Ticket recording on the cash sheet is extremely sloppy and the numerical sequence on the cash sheets is often changed to balance to the available cash. Sometimes we found that the numerical sequence of tickets used does not balance to the number reported as sold on the cash sheet.

RECOMMENDATIONS

1. That a perpetual record be maintained of unused tickets in the vault.
2. That the numerical sequence of alcoholic beverage tickets be reconciled monthly by someone independent of tickets and cash.

Presently there is no way of knowing exactly what tickets have been received, issued and used. Ticket useage should be carefully controlled and recorded and tickets used per cash sheets reconciled to revenue.

3. That tickets be used in the correct sequence until that roll runs out. The next roll used should be that of the next sequence.

Presently, new ticket sequences are started at random, making it impossible to know which tickets have been used and which remain in the inventory.

4. That cashiers be properly taught how to record their ticket numbers and calculate numbers sold.
5. That it be an understood procedure that tickets cannot be interchanged between the various sales and categories.
6. That used tickets be placed in a sealed envelope and forwarded with the daily cash sheet to the accounting office for audit.

PURCHASING PROCEDURES

In their September 16th, 1980 meeting, the Board of Directors passed the following resolutions as part of the job responsibilities of the General Manager.

"The General Manager shall have the authority to authorize the staff to use their discretion to disburse monies within the budget of the Hamilton Place Convention Centre as needed for the general operation of the facilities".

"It was further agreed by the Board the General Manager shall have the authority to purchase capital assets up to and including the sum of \$ 5,000. Any purchases of assets over and above this amount are subject to the prior approval of the Board of Directors".

RECOMMENDATIONS

1. That the Board pass a by-law to set out specific purchasing guidelines. Some of the items which should be covered in this by-law are as follows:
 - (a) A setting of a dollar amount for which purchases over that amount must be referred to the Board for approval. There would probably be one amount for capital purchases and another amount for operating.
 - (b) The setting of dollar amounts for which public tenders should be called and for which quotations should be called. Specific exemptions to this rule should receive approval of the Board of Directors.
 - (c) The setting of a dollar amount under which purchases may be made without competitive quotations.
 - (d) Procedures for approving budget overruns for specific accounts.

1. (e) As required by a resolution passed by City Council in their meeting of February 10th, 1981, the services of the Purchasing Department of the City of Hamilton should be used.

RELOCATION COST

Relocation Cost Expense Account #3321-0296 shows an actual expense of \$ 29,109 compared to a budget of \$ 16,500. This account includes the actual costs of moving furniture, air flights of employees to Hamilton, back to their home and then return flights for them and their families to Hamilton, and accommodation costs in Hamilton for a period of up to five weeks. There is no apparent policy set as to the moving costs that will be reimbursed by the Convention Centre.

As was apparent in most of the expense accounts, some of the payments lacked adequate documentation.

LIQUOR AND BEER INVENTORY

There is no perpetual record kept of liquor or bar inventory, nor is there an inventory control account maintained in the general ledger. In addition, there are no management reports prepared showing bar margins.

RECOMMENDATIONS

1. That a perpetual inventory of liquor and beer be maintained.
2. That access to the liquor and beer storage area be limited to a few persons. These would include those employees primarily responsible for inventory control plus the General Manager and Assistant General Manager.
3. That monthly counts be made of the liquor and beer inventory and balanced to the perpetual records.
4. That monthly bar margin reports be prepared and the gross margin percentage compared to budgeted margins.
5. That a label be affixed to each bottle of liquor as it is received into inventory so that identification of Convention Centre liquor is possible. A policy should be set that possession of liquor not so identified would be grounds for dismissal.
6. On a test basis, usage should be calculated by function and compared to the revenue of that function.
7. That consideration be given to reducing the number of brands of liquor carried in inventory.

SEMI-AUTOMATIC SEATING

A semi-automatic seating system was purchased from Hussey Seating Company (Canada) Limited in the amount of approximately \$ 514,000. Although the purchase order was issued through the Purchasing Department of the City of Hamilton, no tenders were called nor competitive quotes obtained. Our discussions with the Purchasing Agent for the City of Hamilton indicated that tenders were not called since the purchasing procedures were the responsibility of the governing body, i.e. the Board of Directors of the Convention Centre. Since the Convention Centre had approved the purchase of these seats and since they did not require tenders or competitive quotes, then none were obtained. Apparently, the City of Hamilton had a favourable experience rating for Hussey and the General Manager of the Convention Centre was strongly in favour of accepting the Hussey contract. It was felt in his capacity of General Manager that he had the necessary expertise in this area.

A perusal of the minutes of the Convention Centre indicates that Mr. Pilato was to prepare a feasibility report in submitting this purchase for the approval of City Council. In our examination of the files of the Convention Centre we were unable to locate such feasibility study and both Mr. Scott Walker, the Assistant General Manager and Mr. Tom Bradley, the City Purchasing Agent, were not aware of any feasibility studies. We have been told that the seating has been used only three times in 1981. At the present time the Convention Centre charges a client \$ 600 to set up the equipment. It is questionable whether this charge reimburses the Convention Centre for the cost of setting up the seating.

We also have been told that some of the equipment does not fit on the Centre's elevators so that it may only be used in the ground floor Hall. This also complicates storage of the equipment.

CASH DEPOSITS

From the opening date to November 3, 1981, cash received in the Convention Centre was periodically taken to the City of Hamilton Treasury Department and deposited through their cash system. After November 3, 1981, cash deposits were made through the Brinks cash depository system. During our audit we found it impossible to reconcile specific cash reports to deposits made through the City Treasury Department as in fact there was often substantial delay in the transfer of cash and no audit trail was retained by the Convention Centre. We, therefore, summarized all available cash reports and compared the total with the cash deposited through the Treasury Department and the Brinks deposit system. The results of this reconciliation showed total deposits to the bank account of \$ 285,389 while the cash receipts report totalled \$ 247,370. Thus, some \$ 38,019 was deposited in excess than that shown on the cash reports.

It is quite possible that a substantial portion of this difference arises from the dinner theatre tickets. Approximately some \$ 25,000 worth of tickets were sold and cannot be located on cash reports for the applicable periods. It seems possible that this money was transferred to the City and recorded as food revenue when the eventual account distribution was forwarded from the Convention Centre. In addition, we noted one instance where a luncheon meeting was held for a service club and the Convention Centre sold tickets directly to the members of the service club rather than billing the service club for the total cost of the meal. This event also was not recorded on a cash report but we did find a signed record of cash collected in the specific file for that function. Again, it is possible that a number of these items could be included in the difference of \$ 38,019.

Our audit also disclosed that only one deposit of \$ 3,511.35 was made for the period from June 25th, 1981 to September 30th, 1981. We understand that a Treasury official brought this deficiency to the attention of the General Manager and for the period, October 1st, 1981 to October 7th, 1981, some \$ 145,855.42 was deposited. An examination of the cash records of the Convention

Centre shows that some \$ 33,551.12 was received in the period, October 1st to October 7th, 1981. Our conclusion is that the difference of \$ 112,334.30 must have been present in the vault of the Convention Centre as at September 30, 1981. Interest rates for short term investments were in the range of 16% to 18% at this time. The insurance in force at that time covered the Centre to a maximum of \$ 10,000 for theft of money and securities. On October 20th the coverage was increased to \$ 100,000.

Our conclusion from this audit is that we cannot be assured that all cash received by the Convention Centre was eventually deposited to the Centre's bank accounts. In fairness, however, we should also state that no specific information has come to our attention to indicate that cash may be missing. Essentially, the controls over cash and the audit trails pertaining to cash were so poor that a precise conclusion cannot be reached.

RECOMMENDATIONS

1. That a supervisor check each cashier report for mechanical accuracy and so indicate in writing. During our review of cashier reports we noted many mechanical errors. To ensure that revenue is properly reported, a supervisor should audit each report with the cashier present. This examination should be evidenced in writing by both parties to prevent future disputes. Presently the report provides space for the appropriate signatures, however, these are not used consistently.
2. That cashier reports be prepared in ink. During our audit we noted that on several cashier reports the ticket numbers and cash counts had been altered. To prevent unauthorized changes, all information should be permanently recorded. Alterations would be apparent and appropriate action taken on a timely basis.
3. That cashiers be held responsible for cash shortages. Presently there is no policy requiring cashiers to pay for cash shortages. However, our

3. (continued)

examination revealed that shortages often occur. Holding cashiers accountable for shortages will provide incentives to take more care with their cash and reports.

4. That cashiers be required to sign out both cash floats and tickets. Presently, cashiers must sign their cash reports to indicate receipt of cash floats, however, no similar control exists over ticket issues. To ensure that revenue is properly reported and that all tickets are accounted for, the numerical sequence of tickets issued should be recorded on the cash report before released to cashiers. Cashiers should then check and sign for their cash float and ticket series.
5. That the cash register tape be attached to all cash reports for the smoke shop. During our year-end cash count we noted that the cash register tape had not been totalled and cleared for a substantial period of time. To ensure that these sales are properly recorded, the register should be totalled, balanced to the cash report and the tape attached.
6. That refunded tickets be attached to the cash reports to support deductions from sales. At present, ticket refunds are noted on the cash reports, however, there is no evidence to support the deduction from sales. To ensure that all ticket refunds are legitimate, the tickets should be cancelled to avoid resale and attached to the cash report.
7. That officials of the Convention Centre use cash to purchase bar tickets used for promotional purposes. At present, when managers require beverage tickets for promotional purposes, they exchange a business card for tickets. The card is then attached to the cash report to support the deduction. Internal control would be strengthened if cash was used and then recovered through the normal expense report system. Also, this system would create a better impression for the Convention Centre staff and eliminate the impression of personal abuse.

8. That employees pay cash for all purchases through the smoke shop and food concessions. During our audit we noted that employees obtained merchandise from the smoke shop and food concessions at no cost. The cashier was instructed to note the disbursement and charge it to account 115 on her cash report. These charges do not appear to be subsequently reimbursed. We would suggest that this difficulty would be overcome if purchases could only be made on a cash basis.
9. That bank deposits be reconciled with cash reports. As we mentioned before, cash receipts were stored in a safe and when an excessive amount accumulated, it was deposited at City Hall. Deposits did not tie in with specific cash reports. To prevent errors or possible misappropriations, cash receipts should be deposited intact and reconciled with specific cash reports.
10. That the question of inventory control in the smoke shop be reviewed. We noticed during our visits that some of the smoke shop inventory is left on the counter and that even the inventory at the back of the smoke shop is not locked. This inventory is susceptible to theft when employees are not physically present at the smoke shop.
11. That all cash received be recorded on a cash report. As we previously mentioned, cash received from dinner theatre tickets and for at least one luncheon event, was not recorded on cash reports. It is imperative that all cash reports be prepared so that on a daily basis the accounting department of the Convention Centre may ensure that the proper cash is available for deposit.
12. That consideration be given to reducing the cash imprest funds. At the present time the Convention Centre maintains total imprest funds of \$ 8,200. Since the typical cashier's float ranges from \$ 100 to \$ 200, we would suggest that a much smaller float is required and that the excess should be deposited.

13. That a special system be designed to correctly record all tickets sold on behalf of third parties. At the present time, tickets are sold on behalf of parties holding events in the Centre. This ticket money is owed to the client and the present system is to retain the cash at the Convention Centre and then forward it to the client on the night of the event. Both this cash and the subsequent disbursement is not under the control of the accounting system.
14. That employees be prohibited from cashing personal cheques through the cash funds. During our year-end cash count, we found a personal cheque of Mr. Scott Walker's in the amount of \$ 450 as part of the cash balance. The cheque was dated currently and was deposited immediately.

PROCESSING AND PAYMENT OF SUPPLIERS INVOICES

We noted the following procedural deficiencies during the course of our audit:

1. Suppliers invoices often are not signed to authorize payment. In many cases the only authorizing signature is on the invoice distribution form which is forwarded to the City of Hamilton together with the suppliers invoices. This signature should not be taken as replacement for the normal authorization signature.
2. There is no evidence on suppliers invoices that prices, quantity, or calculations have been checked.
3. Payment is often supported by only the suppliers statements or photostats of invoices. This has resulted in numerous duplicate payments.
4. Many cheque requisition requests are forwarded to the City of Hamilton without sufficient supporting documentation. Although we realize that it would be impossible to document every cheque requisition request, a considerable improvement could be made in this area.
5. As mentioned in our previous reports, there is a general deficiency in the use of receiving reports with the result that often there is no evidence that the goods or services paid for have actually been received.

RECOMMENDATIONS

1. A purchase stamp should be obtained. For each invoice, a clerk should check the price, quantity and calculations and then proceed to initial the purchase stamp to indicate that this work has been done.
2. The invoices should then be forwarded to a responsible official of the Convention Centre who would sign both the invoice and the invoice distribution form before they are forwarded to City Hall.

3. A receiving report form should be designed so that the receiver may either sign the packing slip as evidence of receipt or if that is not available, complete a receiving report and forward that to the accounting office. No invoice should be processed for payment unless receiving documentation is present.
4. A directive should be issued to the effect that payment will be made on original invoice only.

BUDGET

On September 22, 1981, a revised budget was prepared under the direction of the General Manager. This revised budget was presented to the City of Hamilton Finance Committee in mid-October. The revised deficit was \$ 932,240 as compared to the original forecast of \$ 539,730. The actual deficit for the year is \$ 1,211,589.

It was drawn to our attention that the Assistant General Manager had previously prepared a revised budget showing an anticipated deficit of \$ 1,317,781. A comparison of the two revised budgets shows the following:

1. The revenue figures were the same in both budgets.
2. Most of the expense account budget items in the final revised budget were the same as contained in the budget prepared by the Assistant General Manager, with the following exceptions:
 - (a) Food and liquor costs were reduced by \$ 117,000 to reflect truer gross margin percentages. In our opinion, this adjustment was a correct one.
 - (b) Various other expense accounts were reduced by a combined total of approximately \$ 141,000. Most of these adjustments seem reasonable.
3. The budget as prepared by the Assistant General Manager contained an adding error of \$ 127,492 which increased his budgeted deficit.

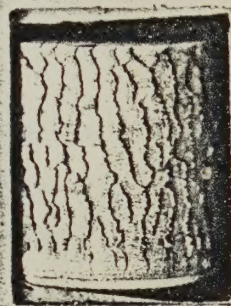
We can, therefore, conclude that the calculations as prepared by the Assistant General Manager were used as the basis for the revised budget and that both these budgets were imprecise when viewed against the actual deficit for the year.

The comparison of the final revised budget to actual results for the year is somewhat difficult as the allocation of various revenue and expense items do

not always conform with the coding and format used in the budget. The comparison showed the following variations:

1. The food and beverage gross margin is down \$ 146,000 from budget. The major portion of this appears to be in the food area.
2. Rental revenue is down \$ 20,000 from budget.
3. Other revenue is down \$ 27,000 from budget.
4. The Centre's utilities plant expense is \$ 141,000 below that budgeted for, but even with this variation, the expense accounts in total exceeded budget by \$ 86,000. There are sizeable variations in numerous expense accounts with some items, such as relocation costs of \$ 29,000, being omitted from the budget in their entirety.

The Revenue and Expenditure Computer Runs forwarded by the City to the Convention Centre on September 18, 1981 showed revenue of \$ 111,915 as compared to expenses of \$ 1,021,627. A similar print-out on October 16th showed revenues of \$ 139,018 and expenses of \$ 1,128,166. This was caused by the fact that substantial billings had not yet been processed and there was a considerable amount of cash transfers that had not been allocated to specific revenue accounts. One can conclude that the information contained in the accounting records was not used in the preparation of the revised budget and that the revised budget as it was eventually submitted was prepared on the basis of imprecise calculations.



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